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ANNUAL REPORT 1968

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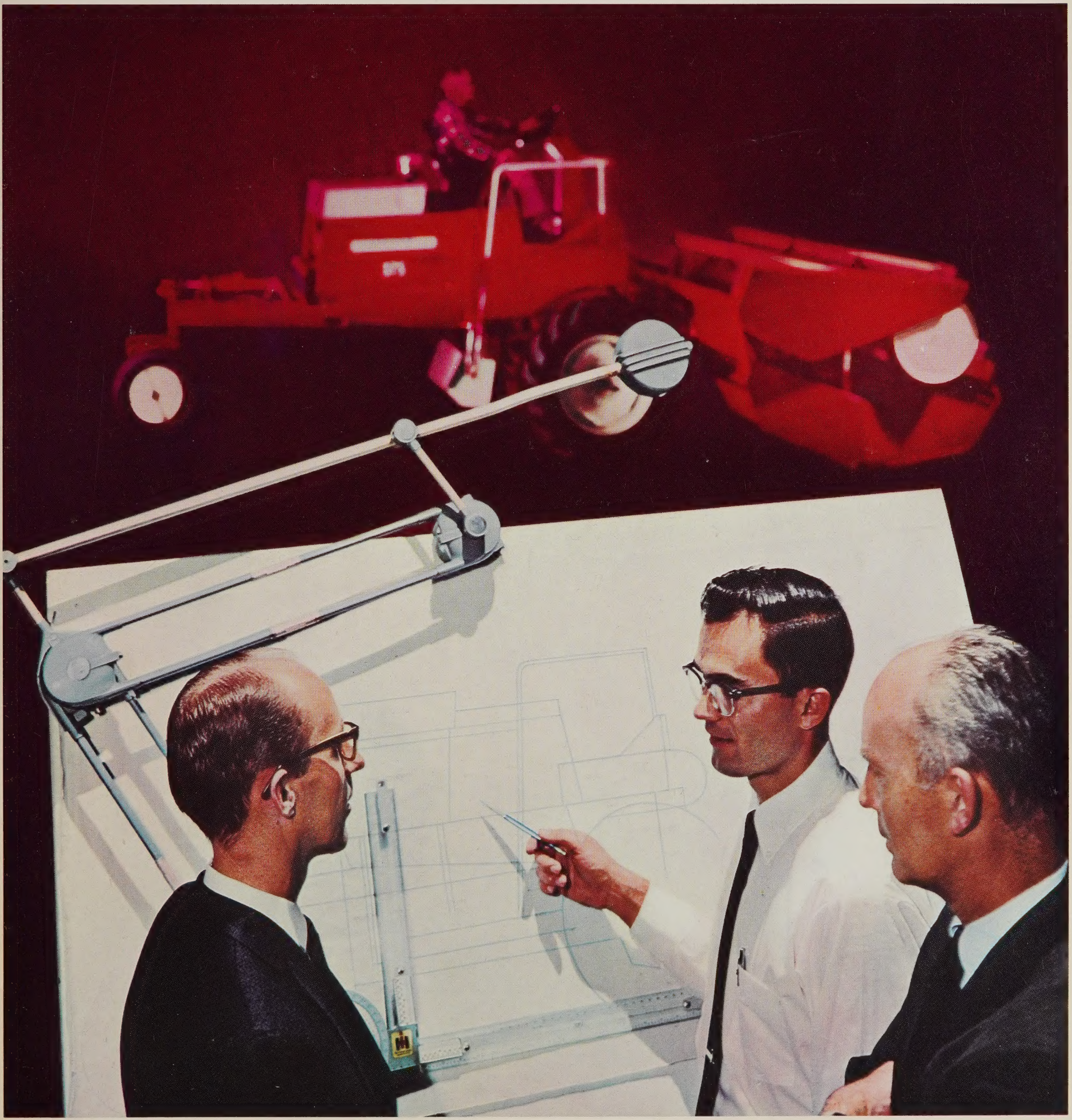
International Harvester Company of Canada, Limited



These Canadian Loadstars are U.S. Bound

The International truck plant in Chatham, Ontario now builds the total North American requirements of the cab-over CO Loadstar, as a result of the Automotive Trade Agreement with the United States. The plant also builds conventional Loadstars for Canada and for segments of the United States market.

Concentrating on fewer product lines has brought new efficiency to the Chatham plant. Access to the huge U.S. market has brought higher employment.

Engineers at Chatham Works have responsibility for the continuing CO Loadstar design program, to keep it abreast of the industry's changing needs.

Research and development

is the life blood of a company making farm equipment, motor trucks and construction equipment. Constant innovation is needed to keep pace with the industries we serve.

So it's not surprising that International Harvester is one of the world's leading exponents of research and development.

But the scope of the Company's *Canadian* R & D program may come as a surprise. This is outlined in a special section of this Annual Report, beginning on page seven.

Our cover pictures symbolize the evolution of a new hydrostatic drive windrower, from conception to the farmer's field.

FACTS AT A GLANCE

	1968	1967
SALES	$223,194,000	$250,008,000
NET INCOME	$ 5,596,000	$ 8,033,000
Percent of Sales	2.51%	3.21%
Percent of Equity Capital—Beginning of Year	6.52%	9.87%
DIVIDENDS PAID	$ 1,550,000	$ 3,600,000
INCOME RETAINED	$ 4,046,000	$ 4,433,000
TAXES—FEDERAL, PROVINCIAL AND LOCAL	$ 14,769,000	$ 20,226,000
CAPITAL EXPENDITURES	$ 3,724,000	$ 7,638,000
DEPRECIATION	$ 4,574,000	$ 4,188,000
LONG-TERM DEBT	$ 7,739,000	$ 4,200,000
EQUITY CAPITAL AT END OF YEAR	$ 89,840,000	$ 85,794,000
AVERAGE NUMBER OF EMPLOYEES	6,363	7,316

CONTENTS

International Harvester Company of Canada, Limited
Annual Report
for year ended
October 31, 1968.

DIRECTORS AND OFFICERS *at December 31, 1968*

BOARD OF DIRECTORS	Charles C. Brannan	William R. Fleming
	Ralph M. Buzard	James J. Harrington
	William E. Callahan	Daryl B. Oldaker
	Fred H. Cobb	W. Norman Smith
	W. Duncan Drummond	Omer G. Voss
OFFICERS	Charles C. Brannan	*President*
	W. Duncan Drummond	*Vice President, Operations*
	William R. Fleming	*Vice President, Motor Truck Sales*
	W. Norman Smith	*Vice President, Finance*
	Robert D. Musgjerd	*Assistant to the President*
	Fred H. Cobb	*Comptroller*
	William Haslam	*Treasurer*
	Earle L. Edmonds	*Secretary*
OTHER EXECUTIVES	Kenneth E. Forrest	*Manager, Motor Truck Sales*
	Charles J. Munro	*Manager, Farm and Industrial Equipment Sales*
	Lawrence J. Murphy	*Manager, Credits and Collections*
	Ronald E. Penfold	*Manager, Engineering*
	John L. Wade	*Manager, Construction Equipment Sales*
	Emerson A. Welles	*Manager, Manufacturing*
	Charles W. Wolfard	*Manager, Supply and Inventory*

Officers inspect the new 500-C crawler
This Hamilton-engineered crawler is being manufactured at Hamilton Works for the total North American market.

W. Duncan Drummond, Robert D. Musgjerd, Earle L. Edmonds
William Haslam, William R. Fleming
Fred H. Cobb, Charles C. Brannan, W. Norman Smith

	1968	1967
Sales	$223,194,000	$250,008,000
Net Income	5,596,000	8,033,000
Capital Expenditures	3,724,000	7,638,000

THE PRESIDENT'S LETTER

The 1968 fiscal year, while presenting many problems for our business, was one of solid accomplishment in many areas. Total export sales were at the second highest level in the Company's history, while domestic sales were generally lower in all categories due to labour strikes and other adverse conditions.

In 1968, our Company announced a large number of important new products. There has hardly been a period in our history when so many new models were introduced in all product lines.

Truck sales were good in 1968, with industry registrations continuing at about the same level as 1967. We substantially increased our share of the important heavy-duty market in which we have been the traditional leader, although we did not keep pace with the growth of the market for smaller trucks.

Industry sales of farm equipment in North America were down in 1968. It is encouraging to note that our share of this market improved although our total volume decreased.

Construction equipment sales in Canada were slightly lower than in 1967.

The most significant problems we faced in 1968 were major strikes at Chatham Works (8 weeks) and at Hamilton Works (18 weeks) as well as at our Burlington and Montreal service parts depots and four retail branches in major cities. One or more of our Company operations were strike-bound from mid-June to mid-December 1968. As a consequence, 1968 income was severely affected.

We approach 1969 with optimism and confidence, and believe that our total sales may exceed those of any previous year. Income is not expected to increase in proportion to this higher sales level, however, due to greater labour and material costs.

Wage increases resulting from 1968 negotiations were substantial, outstripping gains in productivity. Full impact of these higher costs for labour, material and services will be felt in 1969. Price adjustments were made where possible, but these have not been sufficient to recover such increased costs. We will continue our determined efforts to increase productivity and reduce manufacturing, distribution and administration costs, as well as the cost of purchased materials and services.

Domestic sales of trucks and construction equipment should increase in 1969, in response to greater activity in construction, natural resource development and other sectors of the economy. Domestic sales of farm equipment are uncertain in the West due to the international wheat situation, but the outlook in the East is expected to be more favourable.

Export sales in 1969 are expected to improve. Export of trucks to the United States will continue to expand as a result of the Automotive Trade Agreement, but farm equipment exports will probably not rise above the 1968 level due to the effects of the lengthy work stoppage at our Hamilton farm equipment plant.

The Board of Directors and all members of management join me in looking forward to the support of all International Harvester employees, distributors and dealers throughout Canada to make 1969 a successful year.

C. C. Brannan,
President

January 10, 1969

REVIEW OF OPERATIONS

TRUCK SALES HIGHEST EVER

Sales of International trucks, service parts and service were 4.6 per cent higher than in 1967, and represent the highest annual sales volume of this product line ever attained by our Company.

This increase is attributed to our export sales, primarily to the United States. 1968 sales in this category were double those of 1967. Growth in the export demand results from our participation in the manufacture and sale of vehicles under the Automotive Trade Agreement. This additional production, together with a reduction in the number of models built at Chatham, provided for further efficiencies in manufacturing. We believe that our truck sales to the United States will continue to expand in 1969.

Domestic sales of trucks were not as good in 1968 as in 1967. Sales of light-duty trucks were not satisfactory and we did not maintain our normal level of market participation. We expect to obtain a larger share of this business in 1969 with the introduction of a new, more competitive line of vehicles.

IH HOLDS HEAVY-DUTY LEAD

We made substantial gains in the heavy-duty truck business. More than 25 per cent of all new heavy-duty trucks registered in Canada in 1968 were International trucks. Industry sales in this classification were lower than in 1967. Our gains can be attributed in part to the introduction of new truck models as well as traditional leadership and product acceptability in the heavy-duty market.

NEW '68 HEAVY-DUTY MODELS

Several new truck models were introduced in 1968. Leading the field is the all-new International Transtar diesel highway truck which became available in Canada late in 1968. This truck, the leader in its class, is a cab-over type in the 35,000 to 54,000 lbs. gross vehicle weight range, and features an aluminum cab with luxurious interior appointments and sleeper accommodations.

Early in 1968 a major new series of heavy-duty Fleetstar trucks was introduced. These trucks are known collectively as the "A" line, and are available both as four-wheel vehicles with two-wheel drive and as six-wheel units with four-wheel drive. They succeeded the popular "R" and "V" series International trucks which were in production for some years.

The Fleetstar-A line, under development for about five years, has entirely new cab, frame, suspension system, sheet metal and other features. It is available with a choice of 90-inch or 92-inch bumper-to-back-of-cab dimensions and with fibreglass tilt hood or butterfly-type steel hoods. An exclusive new heavy-duty "cushion ride" cab, designed for this series, is among many important innovations.

Fleetstar-A line trucks are available with gasoline or diesel engines and are furnished both as straight trucks and as tractors for use with semi-trailers. Almost infinite variations of equipment are available for particular needs, in addition to the prototype specifications.

NEW '69 LIGHT-DUTY MODELS

There is a growing tendency for truck buyers to use light-duty trucks for recreation and personal transportation as well as for business. This has caused the light-duty market to grow at a faster pace than the truck market in general. To capitalize on this market growth, the International light-duty line for 1969 has been completely restyled and re-engineered. The new "D" series features distinctive automotive styling, together with superb riding and steering qualities. This totally new "NOW" look is evident in our entire light-duty line, including the Scout, pickups, the Travelall station wagon, the Travelette 6-passenger pick-up and stake and platform models. These vehicles have great appeal for every segment of the light-duty market, and we have had an enthusiastic response to them.

The Canadian truck market should continue to increase as the population grows and the economy expands. We feel that our participation in the truck business in Canada, with the products now available, will increase at a faster pace than the industry growth rate.

FARM EQUIPMENT SALES DOWN

Farm equipment sales were down substantially in 1968. This decline was about equal in our domestic and export sales. The farm economy in Western Canada was depressed and not conducive to large expenditures for farm equipment. Some of the major factors contributing to this condition were strikes of Seaway workers and Lakehead grain handlers; excessive rain during the harvesting season and absence of expected government financing. Canada's unsuccessful effort to negotiate any major new wheat sales did not help the situation.

As a result of these situations, we suffered a reduction in retail sales which was common to the industry. There were some bright spots insofar as our participation in certain product areas was concerned. Our overall market penetration increased with the largest gains achieved in tractors and diskers. These results reflected a significant historical pattern; our sales do not suffer as much as our competitors' when the farm equipment industry is having a relatively poor year.

There has been excellent acceptance of the new products introduced in 1968, particularly the 656 hydrostatic drive tractor, the 624 tractor imported from our German affiliate, and the 300 Diskall which is manufactured at our Hamilton plant.

A new Company-owned retail store was opened in Lethbridge, Alberta, in 1968 to provide sales and service for the full line of farm equipment and trucks in the immediate area.

More than 60 per cent of the product manufactured at our Hamilton plant is exported to the United States. The two lengthy shut-downs due to strikes at this plant resulted in reduced export sales because goods were not available during the selling season. This factor will continue to affect our sales in the early months of 1969.

CONSTRUCTION EQUIPMENT SALES SLIGHTLY LOWER

Sales of construction equipment were 2 per cent lower than the level attained in 1967.

A significant accomplishment in 1968 was the placing of large fleets of Pay haulers on large hydro power construction projects and on the Welland Canal widening project. Sales of the new TD-25C crawler tractor also were good in 1968. This unit, which is in the 250 to 300 h.p. range, is the largest International crawler tractor. The TD-25C is available with gear drive and power-shift transmissions and features a number of exclusive innovations for ease of maintenance. The undercarriage has life span lubricated rollers, superior track seals and heavy strutted track links for fewer and shorter maintenance stops.

Increased business is expected throughout a wide spectrum of manufacturing, commercial and institutional construction activities as well as the forest industries. The fine acceptance accorded the TD-25C crawler, several improved Pay loader models produced at our Candiac plant, and other new products, give us reason to expect an increased share of the construction equipment market.

SOLAR PRODUCTS EXPAND

There is a growing market in Canada for Solar products developed and marketed by International Harvester Company. These products consist primarily of gas turbine-powered engines and compressor sets for stationary power units. Their low operating cost and low maintenance cost are making them increasingly popular, especially in the oil fields of Western Canada.

EMPLOYMENT DOWN IN 1968

The Company's average employment in 1968 was 6,363, compared with 7,316 for 1967. Our production operations were sustained at a lower level in 1968, primarily because of the prolonged work stoppages at our Hamilton and Chatham plants.

Contract negotiations began with the United Steelworkers shop union at our Hamilton plant early in February and with the United Auto Workers shop union at our Chatham plant early in April. Contracts were signed with both of these unions only after lengthy strikes. The year closed with the Hamilton plant shut down due to an office workers' strike which was settled in early December. The United Auto Workers locals at two service parts depots and four retail branches were out on strike from late November to mid-December 1968.

At October 31, production and maintenance employees in Company factories were receiving an average wage of $3.30 per hour, not including overtime or night premium payments.

In terms of hours worked, Company benefit plans covering such matters as vacations, holidays, retirement, insurance, hospitalization and other items, plus the cost of overtime and night premium payments, added $1.19 per hour.

Total wage and benefit payments made by the Company to or on behalf of production and maintenance employees averaged $4.49 per hour worked.

EXECUTIVE CHANGES

John W. D. Wright, retired Vice President, Finance, International Harvester Company, resigned from the Board of Directors. He had been a Director since 1961.

W. Duncan Drummond, Vice President, Engineering, was elected to the Board of Directors to replace Mr. Wright. Mr. Drummond was subsequently appointed Vice President of Operations with executive responsibility for manufacturing, engineering and advertising.

William B. McIlvaine Jr., Vice President, Merchandising and Employee Services, and also a Director, resigned to accept a position with International Harvester Company, Overseas Division.

Fred H. Cobb, Comptroller, was elected to the Board of Directors to succeed Mr. McIlvaine.

William R. Fleming, a member of the Board of Directors, formerly Vice President, Sales, was named Vice President, Motor Truck Sales.

Robert D. Musgjerd, formerly an executive with International Harvester Company, was appointed Assistant to the President with executive responsibilities for farm equipment sales, construction equipment sales and employee relations.

Ronald E. Penfold, Chief Engineer, Hamilton Works, was appointed Manager of Engineering for the Company.

Research and Development Story

A commitment to design new products in Canada

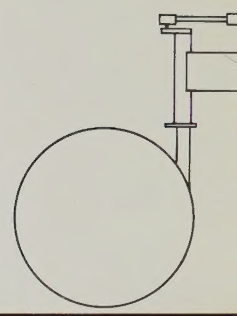
The phrase "research and development" probably hadn't been thought of in 1903. But the creation of new products has been a major preoccupation at Hamilton Works since the Company was founded 65 years ago.

The scope of International Harvester's design activities in Canada surprises even professional engineers. It is doubtful if any Canadian company is more fully committed to the design of new products "from the ground up".

The results have been impressive. All of the products manufactured by the 2300 employees of Hamilton Works were designed at Hamilton Works. Moreover, research and development has made a significant contribution to the Company's export program.

Left:
Electronic equipment measures the results as an axle assembly is punished hour after hour in a stress analysis test.

Below:
The management team behind International Harvester research and development:
From left to right: C. B. Harrop, Chief Engineer, Hamilton Works; C. E. Lindros, Chief Engineer, Chatham Works; R. E. Penfold, Manager of Engineering, Hamilton General Office.



The evolution of Canada's hydrostatic drive windrower

The hydrostatic system of power transmission was in its infancy in 1963. Our Advanced Engineering Group in Hamilton began to wonder if this new concept could be applied to windrowers.

As they saw it, a hydrostatic drive windrower would offer many benefits to farmers cutting and windrowing hay and other crops.

A flick of a lever would give an infinite choice of speeds in forward and reverse. Full engine RPM even at slow ground speed would ensure efficient cutting. The machine promised to be exceptionally reliable, highly maneuverable and easy to operate.

The theory was intriguing. The question was: how well would such a machine work?

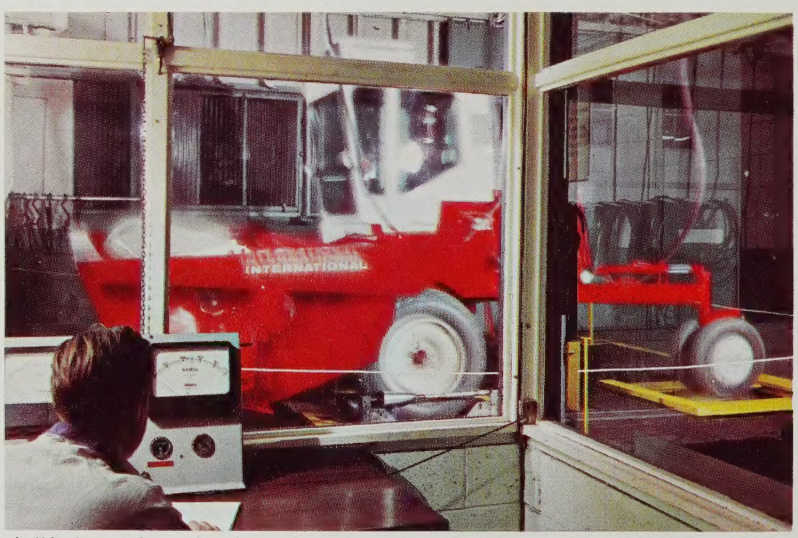
The Product Committee gave the green light for initial development. An experimental prototype was built that proved the basic concept sound. Further development continued.

The Advanced Engineering Group and the Product Engineer assigned to the windrower were able to draw on the resources of the parent company, which was developing hydrostatic drive tractors and combines.

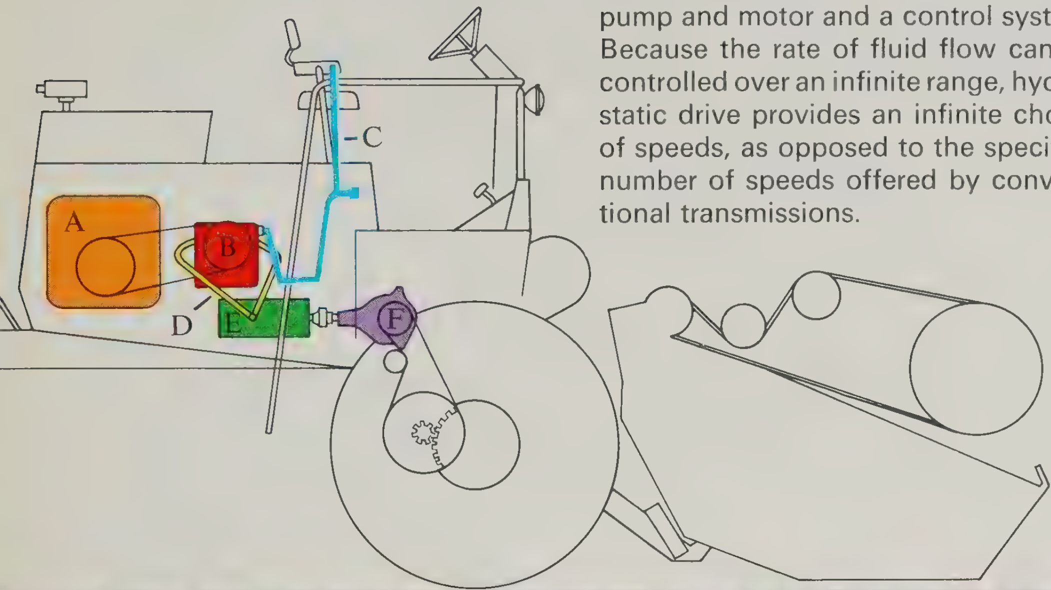
By 1966, final prototypes were being field-tested all over Canada and the United States. A multitude of adjustments and modifications were made.

A year later, the windrower was in limited production, and 1968 saw it working on farms all over North America. What's the verdict on this new machine?

A Wisconsin farmer put it this way. ". . . The varied speeds available with hydrostatic drive have greatly increased my productivity. I have been harvesting better than five acres per hour with my 375 windrower."



A lifetime of service in rough fields is simulated on the "rock and roll" structural test.



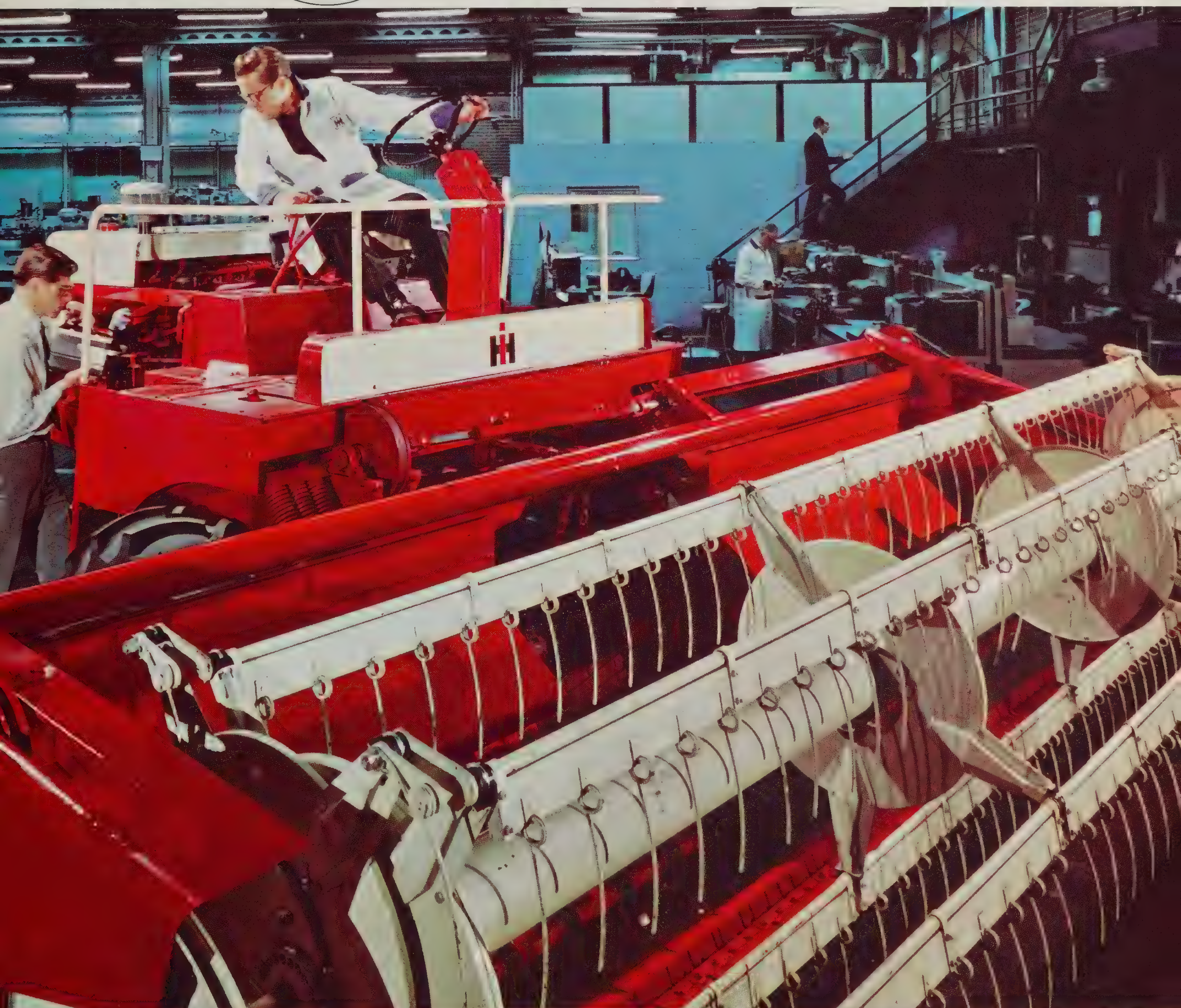
Hydrostatic drive replaces a conventional transmission with a hydrostatic pump and motor and a control system. Because the rate of fluid flow can be controlled over an infinite range, hydrostatic drive provides an infinite choice of speeds, as opposed to the specified number of speeds offered by conventional transmissions.

Here, briefly, is how hydrostatic drive works in the 375 windrower. The engine A belt-drives the hydrostatic pump B. Pistons in the pump travel at constant speed, but the *distance* of piston travel varies, as controlled by the lever C.

The distance the pistons travel determines the amount of hydraulic fluid flowing through the lines D.

Pistons in the hydrostatic motor E travel a constant distance, but the *speed* varies, depending on the flow of hydraulic fluid from the pump.

Thus, mechanical energy from the engine is converted to hydraulic energy by the pump. The motor converts the hydraulic energy back to mechanical energy at the differential F.



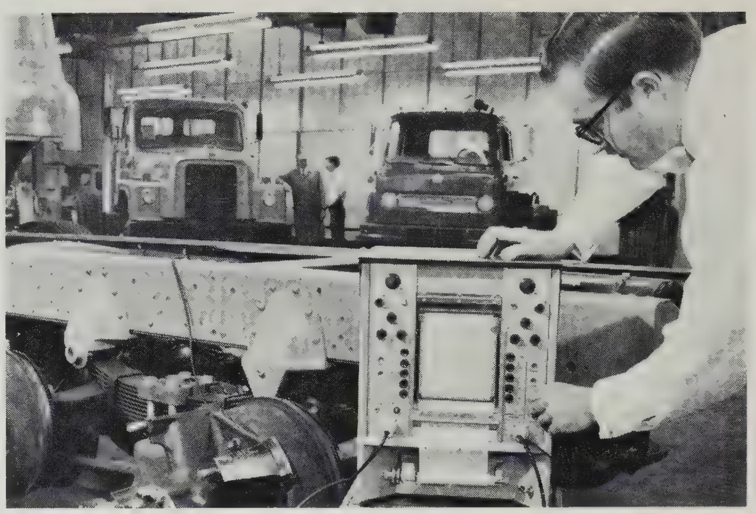
Engineers at Hamilton Works measure torque output from the windrower's hydrostatic drive.

You could assess the importance of International Harvester's Hamilton research and development program from several viewpoints.

For one thing, it provides challenging scope for many talented engineers who might otherwise be lost to Canada.

It has resulted in constantly improving equipment that has helped farmers achieve enviable productivity gains over the years. Providing increased productivity at minimum cost to the farmer is the prime objective of every Hamilton Works design project.

Moreover, research and development makes a crucial contribution to the Company's manufacturing and export program. All the products manufactured at Hamilton Works stem from this Canadian R & D program. And the total North American requirement for these machines is provided by Hamilton Works.



Left. There is a highly-effective research and development team at the Company's truck plant in Chatham, Ontario. Their primary assignment is the continuing improvement of the CO Loadstar, built in Chatham for the North American market. This engineer is testing for consistent air pressure in the brake system. Other Canadian-engineered models include the DF-480 in the background.

From this it can be seen that the Hamilton engineers must have a truly international outlook.

They must be attuned to agricultural trends in every part of the continent, from the Peace River grain country to the rice fields of Louisiana. The machines they design must prove effective in the heavy gumbo of the Canadian west and in the sandy soil of Georgia.

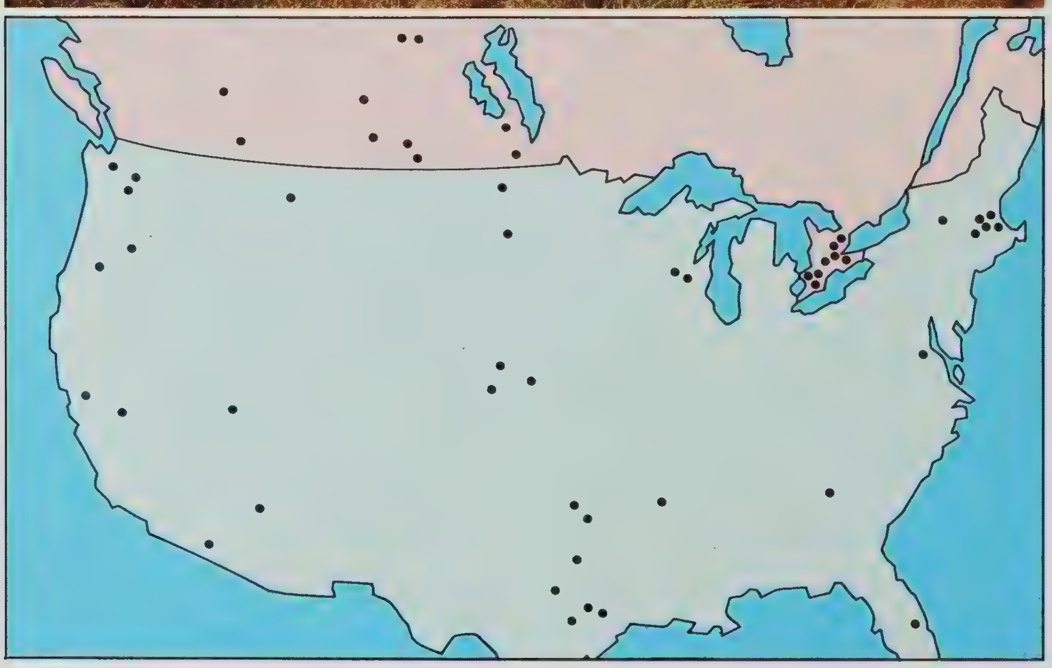
These highly-qualified engineers must therefore be agricultural experts as well. The Advanced Engineering Group in particular must anticipate farming trends long before they mature to make sure that new machines will be ready. Research reports from universities all over North America are required reading.

New machines must be field-tested throughout the length and breadth of North America. This continent-wide testing pits the new products against every condition in every part of Canada and the United States. Moreover, it extends the testing season to ten or more months in the year.

Field-testing techniques are designed to duplicate actual farming conditions. They are conducted not on experimental plots but on typical farms. The farmers themselves use the machines as if they were their own. Test engineers from Hamilton follow the machines on the test circuit to assess performance, look for flaws and find solutions.

Through research and development, International Harvester Company of Canada, Limited is helping the farmer increase his productivity in today's fast-changing world of agriculture.

Central Florida is the site for this field-test of a new Hamilton-designed hay-conditioning windrower. A Hamilton design engineer examines the crop to make sure that the crushing action provides for uniform curing prior to baling. Products designed in Hamilton are field tested on farms in every part of Canada and the United States. (See map below.)



Above. Nine of the one hundred and seventy people of Hamilton Works Engineering are shown with several sales members of the Product Committee. They are backdropped by some of the farm machines they created.

Reading in a clockwise direction from top center, the products are: 105 combine, 275 manure spreader, 275 windrower, 150 drill, 45 Vibra Shank cultivator, 10 semi-mounted drill, 175 windrower, 1501 front end loader and 175 manure spreader.

BASIS OF FINANCIAL STATEMENTS

FINANCE SUBSIDIARY

The net income of the finance subsidiary, International Harvester Credit Corporation of Canada Limited and its income retained have been combined herein with those of the International Harvester Company of Canada, Limited. The equity capital of the finance subsidiary appears as an investment in the Statement of Financial Condition. A separate Statement of Financial Condition of the subsidiary is on page 20.

INVENTORY VALUATION

Inventories have been valued at the lower of cost or market, market being considered as replacement cost, which does not exceed net realizable value.

DEPRECIATION

Depreciation has been computed by the declining balance method at rates generally calculated to absorb the cost of property during the period of its useful life.

RETIREMENT PLANS

The Company has retirement plans in effect for eligible salaried and hourly-rated employees. The estimated unfunded liability in respect of past service benefits at October 31, 1968 was $10,400,000 which is being amortized over twenty-five years from January 1, 1964. Contributions charged to income by the Company in respect of these plans were: 1968—$2,147,000; 1967—$2,242,000.

AUDITORS' OPINION

DELOITTE, PLENDER, HASKINS & SELLS
CHARTERED ACCOUNTANTS
105 MAIN STREET EAST HAMILTON, ONTARIO

To the Shareholders of
International Harvester Company of Canada, Limited:

We have examined the Statement of Financial Condition of International Harvester Company of Canada, Limited as at October 31, 1968 and the Statement of Income and Income Retained for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We have made a similar examination of the Statement of Financial Condition of the Company's wholly-owned non-consolidated finance subsidiary, International Harvester Credit Corporation of Canada Limited as at October 31, 1968.

In our opinion these financial statements present fairly (a) the financial position of International Harvester Company of Canada, Limited as at October 31, 1968 and the results of its operations for the year then ended, and (b) the financial position of the Company's wholly-owned non-consolidated finance subsidiary, International Harvester Credit Corporation of Canada Limited as at October 31, 1968, in accordance with generally accepted accounting principles. In our opinion these generally accepted accounting principles have been applied on a basis consistent with that of the preceding year, except for the change in accounting for deferred income taxes outlined on page 17.

December 6, 1968.

Deloitte, Plender, Haskins & Sells

International Harvester Company of Canada, Limited

STATEMENT OF INCOME AND INCOME RETAINED For the Years Ended October 31, 1968 and 1967

	1968	1967
SALES AND OTHER REVENUES		
Sales		
Dealers and users in Canada	$168,938,018	$193,796,279
International Harvester Company	51,668,465	53,729,504
Other affiliated companies and jobbers	2,587,927	2,481,835
	223,194,410	250,007,618
Net income of finance subsidiary (page 20)	1,586,334	1,333,185
Interest earned	602,549	238,343
Total	225,383,293	251,579,146
COSTS AND EXPENSES		
Cost of sales	192,167,292	211,952,114
Selling and administrative expenses	19,456,044	19,591,731
Charges for financing services on wholesale notes sold to the finance subsidiary	4,428,331	4,476,737
Interest expense	760,866	586,881
Taxes on income (page 17)	2,974,913	6,938,826
Total	219,787,446	243,546,289
NET INCOME	5,595,847	8,032,857
Dividends paid	1,550,000	3,600,000
INCOME RETAINED FOR THE YEAR	4,045,847	4,432,857
INCOME RETAINED AT BEGINNING OF THE YEAR	70,793,697	66,360,840
INCOME RETAINED AT END OF THE YEAR	$ 74,839,544	$ 70,793,697

The information referred to by page number above and the Basis of Financial Statements presented on page 12 are an integral part of this statement.

International Harvester Company of Canada, Limited

STATEMENT OF FINANCIAL CONDITION OCTOBER 31, 1968 AND 1967

ASSETS

	1968	1967
CURRENT ASSETS		
Cash	$ 95,881	$ 95,473
Demand notes receivable from finance subsidiary	11,075,000	3,230,000
Receivables		
Trade accounts	9,595,916	9,251,370
Miscellaneous	1,506,818	1,127,515
Due from affiliated companies	213,375	1,961,187
Due from finance subsidiary	1,167,093	770,328
Inventories	54,977,949	48,923,770
Total current assets	78,632,032	65,359,643
INVESTMENT IN FINANCE SUBSIDIARY		
(Statement of Financial Condition on page 20)		
Equity in net assets	14,191,613	13,555,279
OTHER ASSETS	1,532,829	1,641,089
PROPERTY (page 17)		
Real estate, machinery and equipment—at cost	63,865,238	62,743,504
Less accumulated depreciation	34,040,756	31,754,484
Net property	29,824,482	30,989,020
TOTAL ASSETS	$124,180,956	$111,545,031

The information referred to by page number above and the Basis of Financial Statements presented on page 12 are an integral part of this statement.

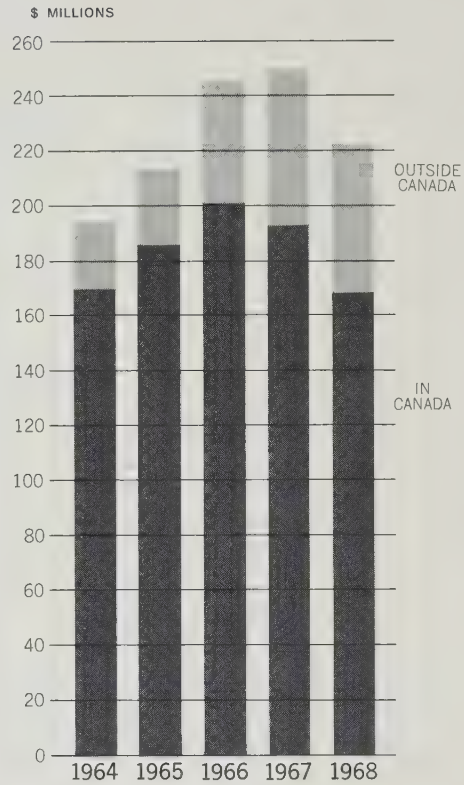
LIABILITIES AND EQUITY CAPITAL

	1968	1967
CURRENT LIABILITIES		
Bank indebtedness	$ 992,832	$ 2,084,721
Current invoices and accruals	13,553,587	13,904,437
Accrued taxes	2,496,376	3,885,979
Current maturities of long-term debt	1,613,537	800,000
Due to affiliated companies	7,367,352	68,197
Total current liabilities	26,023,684	20,743,334
LONG-TERM DEBT		
5¼% notes—maturing November 1, 1973 payable in equal semi-annual instalments	3,400,000	4,200,000
6% note—maturing December 31, 1972 payable in semi-annual instalments (U.S. $4,000,000)	4,338,728	—
Total long-term debt	7,738,728	4,200,000
DEFERRED INCOME TAXES (page 17)	579,000	808,000
EQUITY CAPITAL		
Capital stock		
Authorized, issued and fully paid—150,000 shares of $100 par value	15,000,000	15,000,000
Income retained (page 16)	74,839,544	70,793,697
Total equity capital	89,839,544	85,793,697
TOTAL LIABILITIES AND EQUITY CAPITAL	$124,180,956	$111,545,031

Approved on behalf of the Board: C. C. BRANNAN, Director
F. H. COBB, Director

FINANCIAL REVIEW

SALES



EARNINGS LOWER

Earnings were $5,596,000 compared to $8,033,000 in 1967, a decrease of 30.3 percent.

Several unfavourable conditions prevailed in our business throughout much of the year.

Our total domestic sales were lower, particularly in farm equipment.

Strikes at Chatham and Hamilton Works caused considerable loss of production and subsequent sales to the United States.

Operating margins were less favourable as employment costs and the cost of purchased materials and components continued their upward trend.

The Company's earnings will suffer if increases in the cost of labour, materials and services cannot be recovered through increased productivity, higher sales volume and price increases.

INCOME RETAINED

The balance in Income Retained increased from $70,794,000 at October 31, 1967 to $74,840,000 at October 31, 1968 reflecting earnings retained for the year of $4,046,000 as compared with $4,433,000 in 1967.

At October 31, 1968, $35,216,000 (1967 —$35,074,000) of International Harvester Company of Canada, Limited Income Retained was restricted as to payment of cash dividends by a long-term debt agreement covering its $5\frac{1}{4}\%$ notes.

WORKING CAPITAL HIGHER

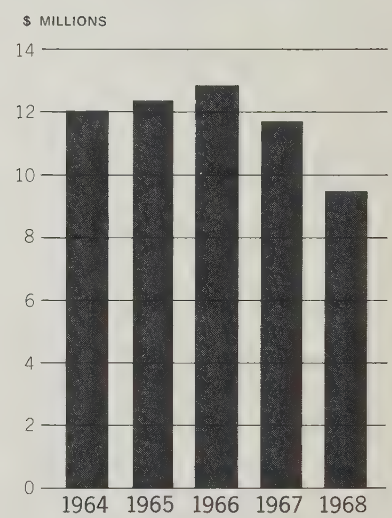
Working capital of the Company (current assets minus current liabilities) increased by $7,991,000 in 1968—from $44,617,000 at the beginning of the year to $52,608,000 at the end of the year.

An analysis of working capital added by operations of the past two years appears below:

	1968	1967
Net income of Company....	$4,010,000	$ 6,700,000
Dividends from finance subsidiary.............	950,000	900,000
Depreciation............	4,574,000	4,188,000
Total...............	$9,534,000	$11,788,000

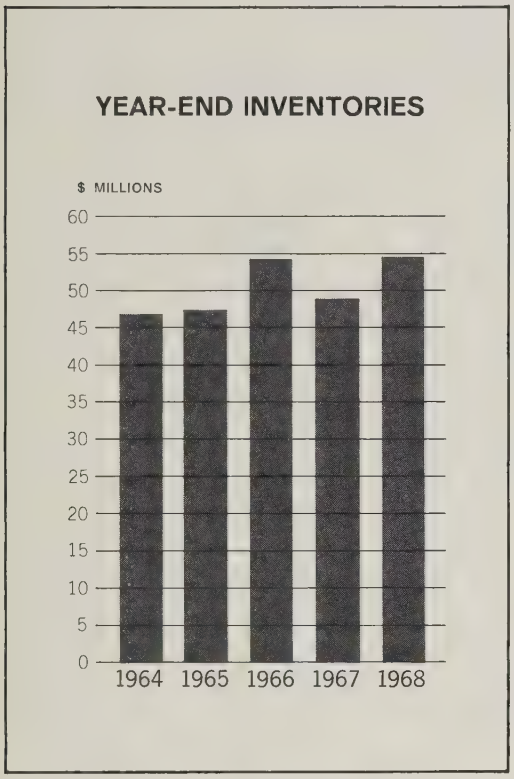
Data for a ten-year period regarding funds derived from all sources, including those generated by operations, and funds disposed of, appear on page 18.

WORKING CAPITAL ADDED BY OPERATIONS



INVENTORIES RISE

Inventories increased during the year by $6,054,000—12.4 percent whereas sales declined 10.7 percent. Approximately 61.0 percent of the inventories consist of finished machines, attachments and service parts and the remainder consists of raw materials, supplies and work-in-process.



CAPITAL EXPENDITURES LOWER

Capital expenditures for the year amounted to $3,724,000 considerably lower than $7,638,000 for 1967. The accompanying schedule shows the effect of these expenditures, and of other factors including depreciation, upon the property account:

Net property at October 31, 1967		$30,989,000
Changes during 1968 fiscal year		
Capital additions	$3,724,000	
Depreciation	(4,574,000)	
Net book value of property dispositions	(315,000)	
Net decrease during the year		(1,165,000)
Net property at October 31, 1968		$29,824,000

Capital expenditures are expected to be substantially higher in 1969. At October 31, 1968 appropriated balances carried forward totalled $2,974,000. Commitments on appropriations in progress at October 31, 1968 approximated $1,374,000.

INCOME TAXES

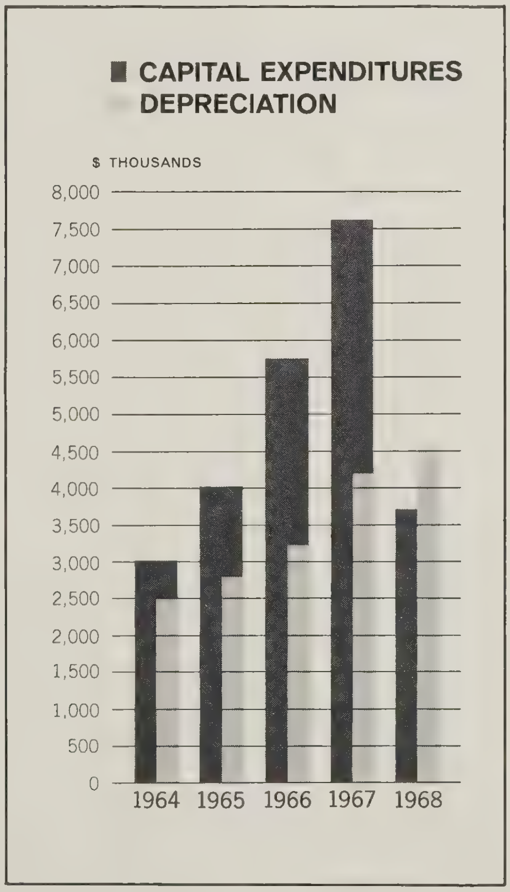
Income tax expense was $2,975,000 in 1968 and $6,939,000 in 1967.

In 1968 tax expense has been reduced by recoveries of prior years amounting to $666,000.

Tax audits have been completed and settled through the 1966 fiscal year for the Company and its finance subsidiary.

DEFERRED INCOME TAXES

A recent opinion of the Canadian Institute of Chartered Accountants adopted the principle of comprehensive inter-period income tax allocation. This principle provides for recognition of the income tax effect in the current period for each income and expense item regardless of when the income tax is actually payable. In 1968, to comply with the foregoing opinion, the Company adopted comprehensive inter-period tax allocation. The effect of this change of practice was to increase net income by $534,805 of which $425,805 is attributed to the non-consolidated finance subsidiary (page 20).



International Harvester Company of Canada, Limited

STATISTICAL DATA *(Dollar amounts in millions)*

	1968	1967	1966
SALES BY AREA OF FINAL SALE			
Canada	$169.0	$193.8	$200.9
United States	51.7	53.7	42.6
Europe and Africa	.9	.8	.4
Latin America	.7	.6	.5
Pacific Area	.9	1.1	1.3
Total	$223.2	$250.0	$245.7
NET INCOME			
Amount	$ 5.6	$ 8.0	$ 10.2
Percent of sales	2.51%	3.21%	4.15%
Percent of equity capital	6.52%	9.87%	13.28%
WORKING CAPITAL CHANGES			
From operations — Note 1	$ 9.5	$ 11.8	$ 12.9
Added by increase in long-term debt	3.5	—	—
Effect of changes in other assets, etc. (net)	.3	.2	(1.2)
Total	13.3	12.0	11.7
Used for:			
Capital expenditures	3.7	7.6	5.8
Common stock dividends	1.6	3.6	5.6
Retirement of long-term debt	—	.8	.4
Total	5.3	12.0	11.8
Increase or (decrease)	$ 8.0	$ —	$ (.1)
DEPRECIATION	$ 4.6	$ 4.2	$ 3.2
EQUITY CAPITAL AT END OF YEAR—OCTOBER 31			
Common stock	$ 15.0	$ 15.0	$ 15.0
Income retained	74.8	70.8	66.4
Total equity capital	$ 89.8	$ 85.8	$ 81.4
REPRESENTED BY			
Current assets	$ 78.6	$ 65.3	$ 66.7
Less: Current liabilities	26.0	20.7	22.1
Working capital	52.6	44.6	44.6
Property (net)	29.8	31.0	27.7
Investment in finance subsidiary	14.2	13.6	13.1
Other assets	1.5	1.6	1.6
Total	98.1	90.8	87.0
Less:			
Long-term debt	7.7	4.2	5.0
Deferred income taxes	.6	.8	.6
Provision for employees' retirement benefits	—	—	—
Total	8.3	5.0	5.6
Total net assets	$ 89.8	$ 85.8	$ 81.4
RATIOS			
Current assets to current liabilities	3.0-1	3.2-1	3.0-1
Equity capital to long-term debt	11.7-1	20.4-1	16.3-1

Note 1. On page 16 under the section "Working Capital" there is shown, as to 1968 and 1967, an analysis of working capital generated by operations.

1965	1964	1963	1962	1961	1960	1959
$186.5	$170.1	$149.8	$129.7	$123.2	$134.0	$137.3
25.0	22.6	22.9	22.9	17.1	21.3	11.6
.4	.7	.7	.7	1.5	.3	.3
.6	.9	.5	.2	.5	.2	.2
1.1	1.1	.5	.2	1.1	.5	—
$213.6	$195.4	$174.4	$153.7	$143.4	$156.3	$149.4
$ 9.8	$ 9.9	$ 9.3	$ 7.1	$ 4.7	$ 5.1	$ 4.9
4.59%	5.07%	5.33%	4.62%	3.28%	3.26%	3.28%
13.12%	14.10%	14.51%	11.91%	8.17%	9.12%	9.11%
$ 12.4	$ 12.0	$ 11.4	$ 9.4	$ 6.8	$ 7.6	$ 7.8
—	—	—	—	—	—	—
.2	(.6)	(1.5)	.1	(.2)	(1.2)	(7.0)
12.6	11.4	9.9	9.5	6.6	6.4	.8
4.0	3.0	4.3	2.1	3.6	4.3	3.7
7.7	5.4	5.0	2.6	2.5	3.5	2.8
.8	.8	.8	.8	.8	.8	.8
12.5	9.2	10.1	5.5	6.9	8.6	7.3
$ .1	$ 2.2	$ (.2)	$ 4.0	$ (.3)	$ (2.2)	$ (6.5)
$ 2.8	$ 2.5	$ 2.6	$ 2.6	$ 2.6	$ 2.9	$3.3
$ 15.0	$ 15.0	$ 15.0	$ 15.0	$ 15.0	$ 15.0	$ 15.0
61.8	59.7	55.2	49.1	44.6	42.5	40.9
$ 76.8	$ 74.7	$ 70.2	$ 64.1	$ 59.6	$ 57.5	$ 55.9
$ 69.8	$ 65.5	$ 64.4	$ 61.1	$ 52.7	$ 53.4	$ 59.9
25.1	20.9	22.0	18.6	14.2	14.6	18.9
44.7	44.6	42.4	42.5	38.5	38.8	41.0
25.3	24.2	23.9	22.7	23.4	22.5	21.3
11.6	11.3	9.9	9.5	9.2	8.7	7.3
1.1	1.1	1.1	.9	1.0	1.0	.8
82.7	81.2	77.3	75.6	72.1	71.0	70.4
5.4	6.2	7.0	7.8	8.6	9.4	10.2
.5	.3	.1	—	—	—	—
—	—	—	3.7	3.9	4.1	4.3
5.9	6.5	7.1	11.5	12.5	13.5	14.5
$ 76.8	$ 74.7	$ 70.2	$ 64.1	$ 59.6	$ 57.5	$ 55.9
2.8-1	3.1-1	2.9-1	3.3-1	3.7-1	3.7-1	3.2-1
14.2-1	12.0-1	10.0-1	8.2-1	6.9-1	6.1-1	5.5-1

International Harvester Credit Corporation of Canada Limited

STATEMENT OF FINANCIAL CONDITION OCTOBER 31, 1968 AND 1967

ASSETS

	1968	1967
CURRENT ASSETS		
Cash	$ 113,237	$ 52,453
Notes receivable		
Wholesale (less deferred discounts and unearned interest of $445,729 in 1968 and $457,903 in 1967)	48,415,576	49,930,851
Retail (less unearned finance charges of $6,732,076 in 1968 and $4,658,295 in 1967)	42,093,570	31,975,497
	90,509,146	81,906,348
Less allowance for losses	1,476,335	1,322,479
Notes receivable (net)	89,032,811	80,583,869
Refundable Federal tax	48,426	—
Total current assets	89,194,474	80,636,322
PREPAID INTEREST AND OTHER ASSETS	365,808	388,955
DEFERRED INCOME TAXES	425,805	—
Total assets	$89,986,087	$81,025,277

LIABILITIES AND EQUITY CAPITAL

	1968	1967
CURRENT LIABILITIES		
Notes and loans due within one year	$43,329,300	$45,829,800
Demand notes payable—parent company	11,075,000	3,230,000
Accounts payable (including parent company $1,167,093 in 1968 and $770,328 in 1967)	1,257,266	804,867
Accrued taxes	454,284	578,727
Accrued interest	268,230	544,358
Dealers' contingency credits	1,015,081	786,933
Total current liabilities	57,399,161	51,774,685
SENIOR INDEBTEDNESS		
Debentures—5¾% due 1984 or prior	11,000,000	11,000,000
SUBORDINATED INDEBTEDNESS		
Notes—6% to 7¾% due 1984 or prior (1968 includes U.S. $5,000,000 due to affiliates)	7,395,313	4,695,313
EQUITY CAPITAL		
Capital stock		
Authorized—250,000 shares of $100 par value—issued and fully paid 100,000 shares	10,000,000	10,000,000

Income retained

	1968	1967
Balance, beginning of year	$3,555,279	$3,122,094
Net income for the year	1,586,334	1,333,185
Less cash dividends	(950,000)	(900,000)

	1968	1967
Balance, end of year	4,191,613	3,555,279
Total equity capital	14,191,613	13,555,279
Total liabilities and equity capital	$89,986,087	$81,025,277

Approved on behalf of the Board: W. N. Smith, Director

C. C. Brannan, Director

Basis of Financial Statements

RECEIVABLES. At October 31, 1968 wholesale notes receivable included $1,485,757 which will mature after October 31, 1969, of which none will mature after October 31, 1970 and retail notes receivable included $27,120,117 maturing after October 31, 1969 of which $11,602,754 will mature after October 31, 1970.

DEFERRED INCOME TAXES. A recent opinion of the Canadian Institute of Chartered Accountants adopted the principle of comprehensive inter-period income tax allocation. This principle provides for recognition of the income tax effect in the current period for each income and expense item regardless of when the income tax is actually payable. The Company's allowance for losses which totaled $1,322,479 at October 31, 1967, has not been deducted for Federal income tax purposes. The opinion requires that the tax effect be given to the allowance for losses and the Company is complying with this requirement over a two year period of time, which generally coincides with the average life of the Company's notes receivable. The effect of this change of practice was to increase net income by $425,805 and a similar adjustment can be anticipated in 1969.

NET INCOME. Earnings on wholesale notes are derived from carrying charges based on the monthly note balances and from a discount which the Company takes into income upon settlement of the notes.

Finance charges included in retail notes are taken into income over the life of the notes.

INDEBTEDNESS. At October 31, 1968 there is no restriction on dividend distribution under the provisions of the loan agreements relating to the senior and subordinated indebtedness.

Fine car styling and comfort are combined with rugged strength in the recently introduced International pickup and Travelall station wagon.

Research and development throughout the International Harvester worldwide organization has resulted in the introduction of many new products that will no doubt strengthen our competitive position in the markets we serve. The R&D activities at Hamilton Works and Chatham Works are outlined on pages 7 to 11 of this Annual Report.

The new 815 and 915 combines have hydrostatic drive and sophisticated controls for efficient harvesting.

The new Hough 400 Pay loader is a fast-moving alternative to the conventional power shovel.

Some International farm tractors are now available with hydrostatic drive.

Unique four-wheel drive gives the giant 180 Pay hauler exceptional traction on unfavourable terrain.

The new Cadet 60, at left, joins the line of Cub Cadet garden tractors. Like some models of International farm tractors, the 124 Cub Cadet has hydrostatic all-speed drive.

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